

BUDGET MANAGEMENT AND COMPENSATION RESERVES

1. COMPENSATION RESERVES

Governor: Provide in the 2003-05 general fund condition statement, total compensation reserves of \$252,150,900 in 2003-04 and \$383,974,700 in 2004-05 for the increased cost of state employee salaries and fringe benefits. Total compensation reserve amounts by fund source and fiscal year are shown in the following table:

<u>Fund Source</u>	<u>2003-04</u>	<u>2004-05</u>	<u>Biennial Total</u>
General Purpose Revenue	\$115,812,900	\$176,359,600	\$292,172,500
Federal Revenue	29,559,200	45,012,600	74,571,800
Program Revenue	88,926,600	135,417,200	224,343,800
Segregated Revenue	<u>17,852,200</u>	<u>27,185,300</u>	<u>45,037,500</u>
Total	\$252,150,900	\$383,974,700	\$636,125,600

Details on the components included by the Governor in these reserve amounts were not provided by the administration. Typically, amounts included by a Governor within the total compensation reserves amounts are funds to pay for: (a) the employer share of state employee health insurance premium increases in the forthcoming fiscal biennium [*Note: see related issue regarding state employee health insurance contributions under "Employee Trust Funds"*]; (b) the costs of length-of-service payments for classified state employees; (c) a reserve amount for the costs of pay increases (including a sub-allocation of funds for market adjustments) that will be provided by pay plan and collective bargaining agreements that will be approved for the forthcoming fiscal biennium; and (d) sometimes, funds to pay for employee health insurance premium increases and pay increases that have occurred in the current fiscal biennium, but for which funding was not able to be included in agencies' adjusted base year budgets because of timing. In addition, the administration has stated that it has included within compensation reserves amounts sufficient to fully fund in 2003-05 the cost of 2001-03 pay increases for represented employees.

Joint Finance/Legislature: Reduce overall funding including in compensation reserves by \$20,000,000 GPR, \$5,104,600 FED, \$3,083,700 SEG, and \$15,361,700 PR. The total compensation reserves amounts by fund source and fiscal year under Joint Finance are shown in the following table:

<u>Fund Source</u>	<u>2003-04</u>	<u>2004-05</u>	<u>Biennial Total</u>
General Purpose Revenue	\$109,152,900	\$163,019,600	\$272,172,500
Federal Revenue	27,859,400	41,607,800	69,467,200
Program Revenue	83,811,200	125,170,900	208,982,100
Segregated Revenue	<u>16,825,300</u>	<u>25,128,500</u>	<u>41,953,800</u>
Total	\$237,648,800	\$354,926,800	\$592,575,600

[Act 33 Section: 284 (Figure 20.005(1))]

2. REQUIRED GENERAL FUND STATUTORY BALANCE [LFB Paper 180]

Governor: Modify the current law provision that requires a statutory general fund balance (reserve) equal to 1.6% of gross general fund appropriations plus GPR compensation reserves for fiscal year 2003-04 and 1.8% of gross general fund appropriations plus GPR compensation reserves for 2004-05 to instead provide that: (a) for fiscal year 2003-04, the required reserve be the greater of \$35,000,000 or the amount by which the 2003-04 GPR funding under s. 20.435 (4)(b) for the state medical assistance program is reduced by the use of a transfer in that fiscal year of any revenues from the medical assistance trust fund that are in excess of \$550,000,000; and (b) for fiscal year 2004-05, the required reserve be the greater of \$40,000,000 or the amount by which the 2004-05 GPR funding under s. 20.435 (4)(b) for the state medical assistance program is reduced the use of any revenues in that fiscal year from the medical assistance trust fund are in excess of \$80,000,000. Create session law provisions requiring that the Secretary of Administration prepare: (a) by December 31, 2003, an estimate for fiscal year 2003-04 of the total amount of revenues that will be deposited in the medical assistance trust fund in that fiscal year that are in excess of \$550,000,000; and (b) by December 31, 2004, an estimate for fiscal year 2004-05 of the total amount of revenues that will be deposited in the medical assistance trust fund in that fiscal year that are in excess of \$80,000,000. Also, create a session law provision specifying that the amounts in the appropriations schedule under s. 20.435(2)(b) would be automatically reduced, without any legislative review or approval, by any amount of the increased revenue to the medical assistance trust fund that would be in excess of the trust fund levels specified above.

Also, modify the current law provision that requires a statutory general fund balance equal to 2.0% of gross general fund appropriations plus GPR compensations for fiscal year 2005-06 (and thereafter) to instead provide that the on-going 2.0% requirement not become effective until fiscal 2006-07 (the second fiscal year of the 2005-07 biennial budget) and that instead, for fiscal year 2005-06 the required general fund statutory balance be required to be a fixed amount of \$75,000,000.

Joint Finance/Legislature: Modify provision to delete all references to procedures for increasing the statutory balance for 2003-04 beyond the \$35,000,000 amount specified in the bill

for that fiscal year or for increasing the statutory balance for 2004-05 beyond the \$40,000,000 amount specified in the bill for that fiscal year.

[Act 33 Sections: 280 thru 283]

3. DEPOSIT OF PUBLIC PROPERTY SALES PROCEEDS IN THE BUDGET STABILIZATION FUND [LFB Paper 181]

Governor: Modify current law regarding the sale of state-owned property to specify that whenever such property is sold, the net proceeds of any such sale shall be deposited in the budget stabilization fund. Under current law, monies are deposited in the budget stabilization fund as a result of: (a) monies donated to the fund; (b) a provision enacted last session that provides that 50% of all general fund tax collections that are in excess of the amounts projected under the biennial budget act to be collected in a given fiscal year are to be deposited to the budget stabilization fund; and (c) any direct appropriation to the fund. Under the bill, the State Building Commission and the Department of Administration would be required to deposit certain property sales proceeds to the budget stabilization fund.

Under current law, the State Building Commission may sell or lease any state-owned building or land unless another state agency is authorized to sell or lease such building or land. Upon such sale or lease, the Commission is required to use the proceeds from such sale or lease to first pay any outstanding debt on the land or building. After all such debt has been repaid, the Commission is then required to credit the remaining net proceeds from the sale or lease to the Joint Committee on Finance's supplemental GPR appropriation. Under current law, if an agency had sole occupancy or use of the land or building, that agency may request that the Committee provide 50% of such net proceeds to the agency. Upon request from the Building Commission, the Committee may transfer any amounts not requested by an agency, plus the remaining 50% of net proceeds to the state building trust fund. At the end of each biennium, any unreleased funds from such sales that remain in the Committee's appropriation are lapsed to the general fund. Under the bill, all remaining net proceeds from such sales or leases would be deposited into the budget stabilization fund instead of into the Committee's appropriation.

Further, create a new statutory provision relating solely to the Northern Center for the Developmentally Disabled that would specify that Department of Health and Family Services may maintain the Center, but may sell the assets or real property of the Center. The provision would further direct that any proceeds from such sales must first be used to repay any outstanding debt obligations for the Center and to reimburse the federal government for any costs of such property that were financed from federal funds. Finally, the provision would stipulate that following those requirements, any remaining net proceeds from such sales would be required to be deposited in the budget stabilization fund.

Under current law, DOA is required to promulgate rules for the declaration of supplies, materials and equipment in any state agency as surplus and for the transfer of such items to other state agencies or for the public or private sale of such surplus items. Further, the

disposing agency is to receive due credit for the items, except that DOA is required to transfer to the Department of Tourism, without cost, any such items as requested by the Department of Tourism. Under the bill, except for those items requested by the Department of Tourism, the net proceeds from the transfer or sale of such items would instead be required to be deposited in the budget stabilization fund.

Joint Finance/Legislature: Delete provisions relating to the transfer of any proceeds from sale of assets or real property of Northern Center for the Developmentally Disabled to the budget stabilization fund.

[Act 33 Sections: 26, 209, and 861]

4. GPR SPENDING CAP EXEMPTION [LFB Paper 182]

Governor: Provide, for the 2003-05 biennium, an additional one-time exemption from those GPR appropriations that are subject to the overall limit on increases in GPR appropriations for any GPR appropriation that is established for the purpose of making payments to counties, towns, villages and cities under ss. 79.035 (county and municipal aid) and 79.036 (consolidation incentive payment) of the statutes. Under the bill, the only GPR appropriation that this would affect would be the county and municipal aid account appropriation [s. 20.835(1)(db)].

Under current law, total GPR appropriations for each fiscal year of a succeeding biennium [in this case, the 2003-05 fiscal biennium], after excluding all those specific appropriations or appropriation categories that are enumerated in the law, may not exceed a level that is the result of multiplying the applicable total GPR level of appropriations for the second year of the prior fiscal biennium [in this case, fiscal year 2002-03] by the projected increase in state personal income for the two calendar years for which January 1 of the calendar year precedes the July 1 of the respective fiscal year [in this case, the personal income growth projections for calendar years 2003 and 2004 respectively]. The second year increase is applied to the limit amount set for the first year of the biennium.

Under s. 13.40(3) of the statutes, the following appropriations or categories of GPR appropriations are excluded from the statutory limit on year-to-year increases in GPR spending:

- Any appropriation passed by at least a two-thirds vote of each house of the Legislature.
- All appropriations to the following agencies: (1) Higher Educational Aids Board; (2) Department of Public Instruction; and (3) University of Wisconsin System.
- All appropriations for the payment of tax relief under s. 20.835(2) of the statutes.
- Any appropriation for payments of principal and interest on public debt.
- Any appropriation for payments of principal and interest on operating notes.

- Any appropriation for payments to honor statutory moral obligation pledges.
- Any appropriation for payments to the federal government from bond revenues to avoid a designation of state bonds as arbitrage bonds.
- Any appropriation for payments for legal expenses and for the costs of judgments, orders and settlements of actions and appeals incurred by the state.
- Any appropriation for payments to execute a transfer from the general fund to the budget stabilization fund (as required under s. 16.518 of the statutes).

This provision would add the above-mentioned exemption relating to payment of aids to counties, towns, villages and cities under ss. 79.035 and 79.036 to that list, but the exemption would be in effect only for the 2003-05 fiscal biennium. [Note: a technical correction to the bill is necessary since s. 79.036 relating to consolidation incentive payments is repealed under the bill].

Joint Finance/Legislature: Include provision but add a technical correction to delete the reference in the language to s. 79.036, which is repealed in the bill.

[Act 33 Section: 22]

5. FREEZE ON FY 2003-04 THRU 2005-06 GPR STATE OPERATIONS SPENDING

Joint Finance/Legislature: Provide that for fiscal years 2003-04, 2004-05, and 2005-06, the total level of GPR appropriations for state operations purposes may not exceed the total level of GPR funding for those same purposes appropriated in fiscal year 2002-03. Specify that GPR appropriations for debt service payments are excluded from the limit but that amounts set aside for GPR compensation reserves purposes are to be included in the total amount subject to the limit. Stipulate that for calculation purposes, the 2002-03 appropriated amount is to be based on the amount of GPR state operations shown as appropriated in the final appropriation schedule for fiscal year 2002-03, plus the amounts shown in that same schedule for GPR compensation reserves for that fiscal year.

[Act 33 Sections: 20d thru 20t and 23m]

6. LIMITATION ON FY 2005-06 AND 2006-07 GPR STATE OPERATIONS APPROPRIATIONS

Senate/Legislature: Provide that, in addition to the above provision as it relates to a freeze on GPR state operations appropriations for fiscal year 2005-06, the total level of GPR appropriations for state operations purposes in fiscal year 2005-06 and in fiscal year 2006-07, excluding GPR appropriations for debt service, cannot exceed the total level of GPR appropriations for fiscal year 2004-05, excluding GPR appropriations for debt service, less \$100,000,000. Specify that the 2004-05 level of GPR appropriations for comparison would be the

amounts shown in the final appropriations schedule published in the 2003-04 Wisconsin statutes.

[Act 33 Sections: 20d thru 20t and 23m]

7. LAPSE OF NON-GPR FIFTH WEEK VACATION PAY AMOUNTS

Joint Finance/Legislature: Reduce the amount of funding provided in each state agency's budget included under the standard budget adjustment category of "fifth week vacation as cash." These reduction amounts are shown under the standard budget adjustments category for each state agency. In addition, require that the Secretary of Administration, during the 2003-04 and 2004-05 fiscal years determine the amount of such funds removed from state agencies' budgets that were from program revenue or segregated fund sources. Specify that each agency lapse or transfer to the general fund in each of those fiscal years the amounts as determined by the DOA Secretary. Stipulate, however, that no such lapse or transfer to the general fund shall be made if the monies that would otherwise be required to be lapsed or transferred are derived from federal funds whose lapse or transfer would violate a condition imposed by the federal government on the use of those funds, or if the lapse or transfer would be in violation of state law or the state or federal constitution. The estimated increased revenues to the general fund under this provision for the lapse or transfer of these amounts to the general fund are also shown under the individual agency entries. If agencies are required under the compensation plan or state collective bargaining agreements to make these payments in 2003-05, the costs of such payments would have to be absorbed within agencies' budgeted levels.

[Act 33 Section: 9160(3f)]

8. REINSTATEMENT PRIVILEGES AND RESTORATION RIGHTS FOR LAID-OFF EMPLOYEES

Senate/Legislature: Provide that, notwithstanding current law, a state employee laid-off during the 2003-05 fiscal biennium because the agency employing the employee is eliminated or the functions which the employee performed were transferred to a different state agency than the one from which the employee was laid off from would continue to have the same rights to reinstatement and restoration to state service as provided to other state employees under current law. Provide further that these provisions would apply to represented employees notwithstanding the provisions of existing collective bargaining agreements, except that such provisions would apply to those represented employees only until the day before the effective date of any collective bargaining agreement for 2003-05 that covers those employees. After that date, the provisions of the 2003-05 collective bargaining agreement would prevail for those employees.

[Act 33 Section: 9118(2x)]

**9. REDUCTIONS FOR CERTAIN DISCRETIONARY
COMPENSATION ADJUSTMENT AMOUNTS**

GPR-REV	\$960,000
GPR-Lapse	- \$1,040,000
FED-Lapse	- 261,800
PR-Lapse	- 800,000
SEG-Lapse	- 160,000

Joint Finance/Legislature: Require that the Secretary of Administration determine the annualized value of the discretionary compensation adjustments awarded in fiscal year 2001-02 to non-represented classified employees under the 2001-03 state compensation plan. Direct that the Secretary reduce each affected state agency's appropriations for fiscal years 2003-04 and 2004-05 by an amount equal to 27% of the annualized cost of such adjustments, including associated increased fringe benefit costs. Further, require that the Secretary lapse or transfer to the general fund in fiscal years 2003-04 and 2004-05 the amounts so reduced. Specify, however, that no such lapse or transfer to the general fund shall be made if the monies that would otherwise be required to be lapsed or transferred are derived from federal funds whose lapse or transfer would violate a condition imposed by the federal government on the use of those funds, or if the lapse or transfer would be in violation of state law or the state or federal constitution. As a result of the reductions required to be made by the DOA Secretary, total annual appropriation lapses of \$520,000 GPR, \$130,900 FED, \$400,000 PR, and \$80,000 SEG are estimated. Increased GPR-REV of \$480,000 annually from the required PR and SEG lapses or transfers is also estimated.

Veto by Governor [D-1]: Modify the SB 44 language in the following ways: (a) delete the requirement that the reduction to each appropriation from which discretionary compensation adjustments were paid be equal to 27% of the annualized cost of such adjustments so that instead the remaining language states that "an amount" of the annualized cost of any such discretionary compensation adjustments is to be reduced; (b) delete the requirement that a reduction be made from each sum certain appropriation from which discretionary compensation adjustments were made in fiscal year 2001-02 [the comparable language in the bill for other than sum certain appropriations is not partially vetoed]; (c) delete the requirement that the lapses of these appropriation reductions from program revenue appropriations come from each respective appropriation from which a reduction was made [the comparable language in the bill for lapses from appropriations from segregated funds is not partially vetoed]. In his veto message, the Governor indicates that his intent is that, under the language as partially vetoed, DOA will achieve the same overall lapse and transfer amounts to the general fund as projected under SB 44, but that the Secretary of DOA is authorized to apportion these reductions and lapses in alternate ways.

[Act 33 Section: 9160(2f)]

[Act 33 Vetoed Section: 9160(2f)]